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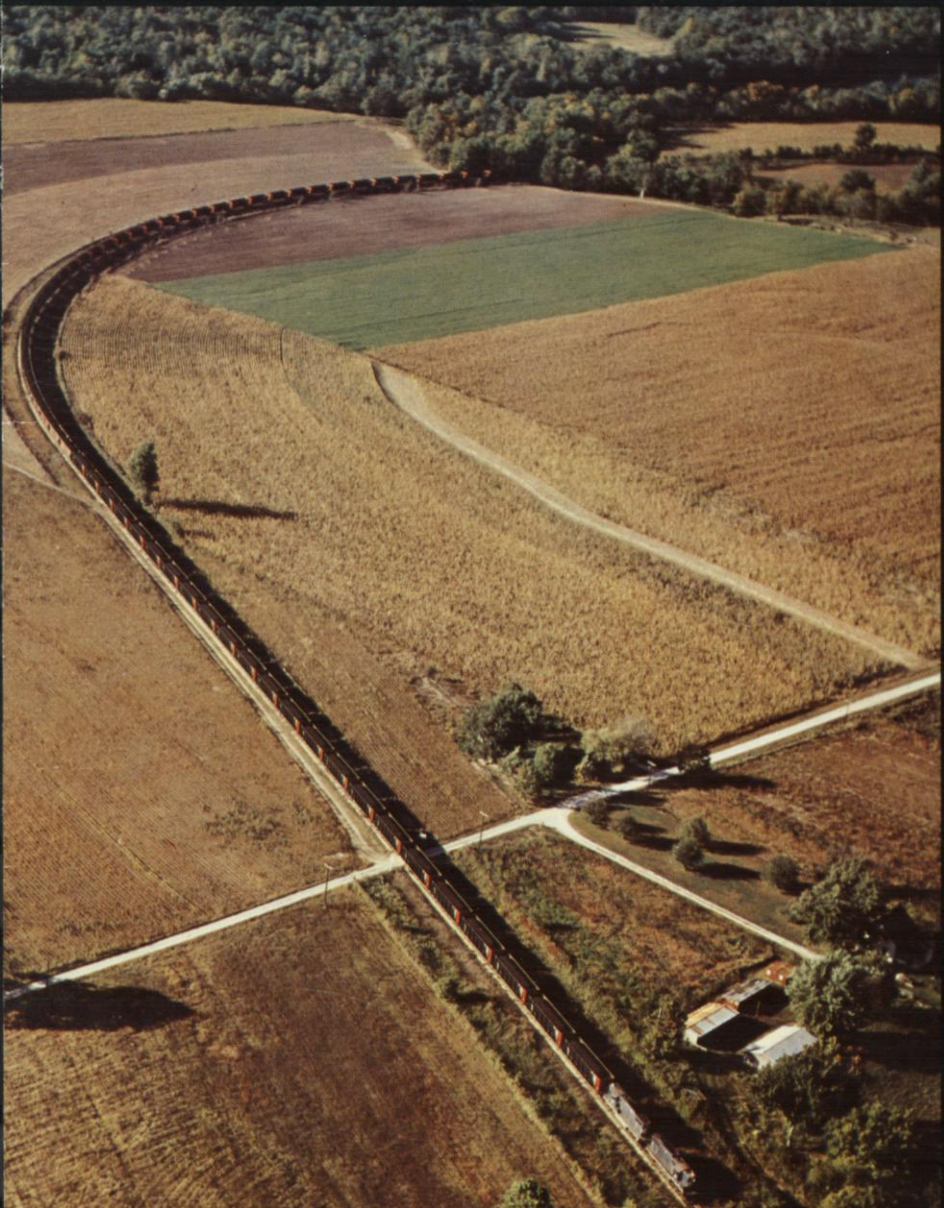
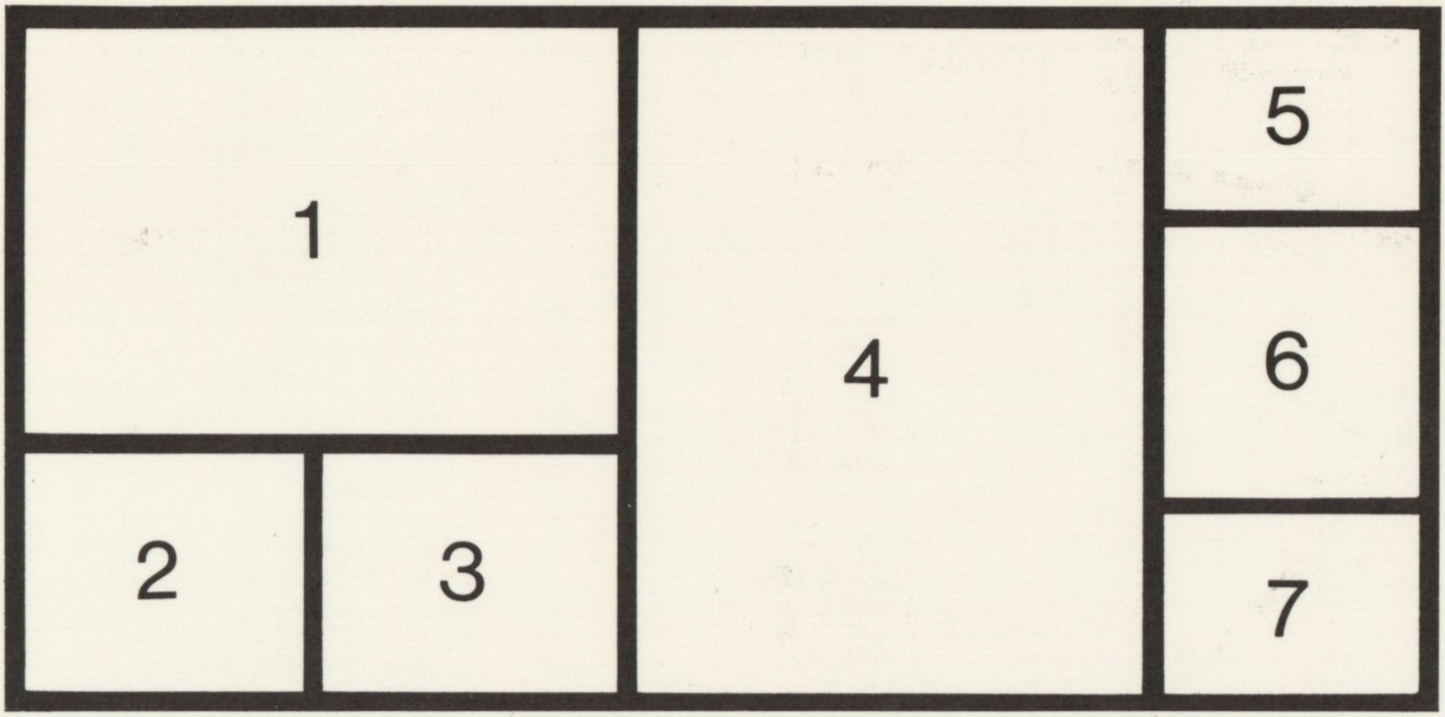


missouri pacific

MISSOURI PACIFIC LINES
MISSOURI PACIFIC LINES

on the cover



1. Chemicals comprise MoPac's largest market area. The chemical industry had a strong year and this was reflected in a substantial gain in chemical traffic on the Missouri Pacific. Marketing played an important role in preserving current chemical traffic and in gaining new traffic.

2. A new distribution facility for automobiles was constructed on a 21-acre site at Lee's Summit, Mo., near Kansas City. It is one of several similar distribution bases on the Missouri Pacific.

3. A vast computer complex forms the heart of MoPac's Transportation Control System. This complex in St. Louis was expanded in 1972 by the replacement of three IBM 360/50 computers by two IBM 370/155 units.

4. Unit coal train operations continued to expand. Three new trains were added in 1972 and three more will begin operations in 1973. Coal traffic was up sharply.

5. Missouri Pacific Airfreight began forwarding operations in October. Thus far, this newest subsidiary is operating from St. Louis, Kansas City, Dallas, Fort Worth, Houston, Memphis and New Orleans.

6. MoPac has one of the most modern freight car and locomotive fleets in the railroad industry. Fleet additions in 1972 included 74 diesel locomotives and 3,820 new freight cars.

7. Both piggyback and container traffic soared to new highs on the Missouri Pacific in 1972. Among factors stimulating this growth was construction of new intermodal centers at St. Louis and Memphis as well as expansion and modernization of facilities at several other sites.

Missouri Pacific System Annual Report

for the year ended December 31, 1972

Consolidated Financial and Operating Highlights

Income and Expense Items:	**1972**	**1971**
Operating Revenues	**$642,919,000**	$602,620,000
Operating Expenses	**508,284,000**	467,809,000
Operating Ratio (Rail Line)	**77.1%**	75.2%
Income Available for Fixed Charges	**69,577,000**	66,336,000
Times Fixed Interest Earned	**2.6**	2.6
Net Income Before Extraordinary Items —		
In Conformity With I.C.C. Accounting Principles	**27,106,000**	25,764,000
Adjusted to Generally Accepted Accounting Principles	**16,630,000**	18,110,000
Extraordinary Items —		
In Conformity With I.C.C. Accounting Principles		(7,678,000)
Adjusted to Generally Accepted Accounting Principles		(6,116,000)
Net Income (Including Extraordinary Items) —		
In Conformity With I.C.C. Accounting Principles	**27,106,000**	18,086,000
Adjusted to Generally Accepted Accounting Principles	**16,630,000**	11,994,000
Cash Dividends Per Share — Class A and B Stocks	**5.00**	5.00

See Pages 22-23 for Information Relating to the Class A and Class B Capital Stocks of the Company

Financial Position:		
Gross Capital Expenditures	**$100,279,000**	$ 71,092,000
Depreciation and Retirements Charged to Income	**41,818,000**	40,219,000
Working Capital, exclusive of long term debt due within one year	**12,270,000**	23,716,000
Long Term Debt, including amount due within one year	**742,229,000**	716,303,000
Freight Statistics:		
Miles of Railroad Operated	**11,796**	11,821
Revenue Ton Miles (1,000's)	**38,793,579**	37,174,539
Revenue Per Ton Mile (cents)	**1.51**	1.47
Employees:		
Total Amount of Payroll	**$280,865,000**	$251,509,000
Average Annual Wages	**12,130**	10,894
Average Number of Employees	**23,154**	23,086

To our stockholders

The Missouri Pacific System established several company records and performed above the average for the railroad industry during 1972.

Consolidated gross revenues were the highest in company history and consolidated net income before extraordinary items advanced 5 per cent from the level of the previous year. At the same time, MoPac invested a record sum in capital improvements.

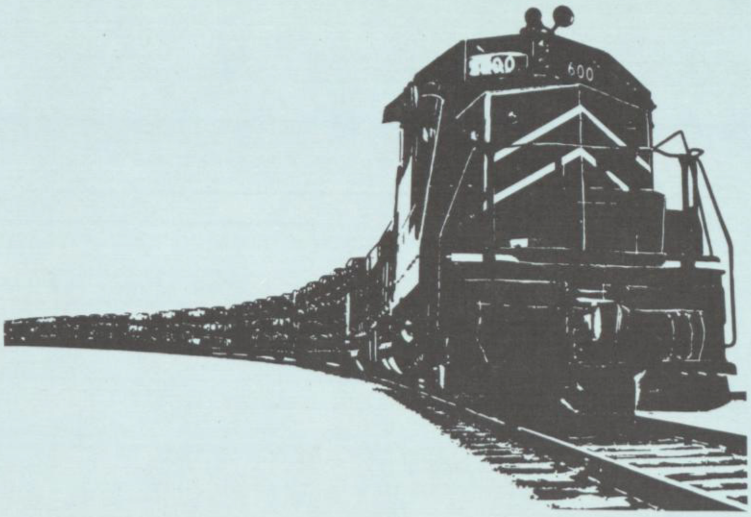
Traffic volume increased and MoPac established another company record in net ton-miles of freight service performed. Intermodal operations, which represent the largest growth potential for railroads, recorded gains well above the level for railroads nationally. Our intermodal capabilities were expanded further when Missouri Pacific Airfreight began operations as an air freight forwarder last October. New industry locating along the Missouri Pacific during the past year will produce substantial new business in the future. In addition, Missouri Pacific is a major participant in the movement of wheat to Russia.

Last October it was announced that an agreement in principle had been reached among the major shareholders of Class A and Class B stock of the Missouri Pacific Railroad for the settlement of dividend litigation in New York. This agreement, which has been reduced to definitive form, if ratified by the stockholders, would result in recapitalization of the stock structure of the company and would resolve a dispute of long standing between holders of the two classes of stock.

The year also was marked by the selection of MoPac as "Railroad of the Year" by the editors of Modern Railroads magazine. The intensive modernization program which MoPac began in 1961 and has continued up to this time was a major determinant in the selection. MoPac has invested about $750 million in modernization during this period without which we would be unable to handle the present level of traffic. As a result we now are able to concentrate on refinements in service and better control of operations while continuing to maintain our facilities at a high level of safety and efficiency.

It is impossible at this time to make any firm predictions about our performance in 1973 because of several situations still to be resolved.

Operating costs continue to rise steadily and there is no guarantee that



the national economy will produce enough additional freight volume to offset the increase. The Missouri Pacific has added $54 million in payroll costs alone as the result of increases granted during the past two years and will pay, at least, an additional $24 million this year.

Labor contracts covering all union employees expire at mid-year and present indications are that the railroad brotherhoods will again press vigorously for wage increases of 10 to 15 per cent annually, plus fringes, in the new contracts. The railroad industry is in no financial position to meet wage demands of this size. Despite a stronger performance in 1972, the railroads still show a net return on investment of less than 3 per cent for the year. Six major railroads are in bankruptcy and 22 of the 71 Class I railroads were not expected to meet their fixed costs in 1972.

Solutions, both short-term and long-term, are possible but there is no firm indication at this time that they will be found or, if found, will be enough to ease the plight of the industry. Short-term, stop-gap relief would be authorization of a rail freight rate increase to help meet immediate increases in expenses. More important for the future would be federal legislation for regulatory reform, removal of tax discrimination by the states and establishment of loan funds for the financially distressed railroads. The Missouri Pacific would be particularly interested in legislation which would make it possible for a railroad to operate all forms of freight transport and thus become a transportation company in the truest sense of the term. This would enable such a company to provide any combination of services according to customer need, under a single bill of lading with single carrier responsibility.

In summary, the Missouri Pacific performed with strength in 1972. We anticipate business activity for 1973 will remain strong. Final results will depend in large part on the solutions that evolve from the questionable areas discussed above.

DB Jenks

D. B. JENKS
Chairman and
Chief Executive Officer
March 9, 1973

Financial results

Net income before extraordinary items on an ICC basis advanced on record revenues. The Chicago & Eastern Illinois also showed gains for 1972. Capital expenditures were higher.

Consolidated net income for the Missouri Pacific System totaled $27,106,000 in 1972, compared to $25,764,000 before extraordinary items the previous year. In order to comply with APB Opinion No. 18 of the American Institute of Certified Public Accountants, consolidated net income includes, for the first time, Missouri Pacific's share of earnings of unconsolidated, less than majority-owned terminal and other affiliated companies, on the basis of equity accounting. This change had the effect of decreasing 1972 consolidated net income on an ICC basis by $212,000 while increasing previously reported net income for 1971 by $748,000.

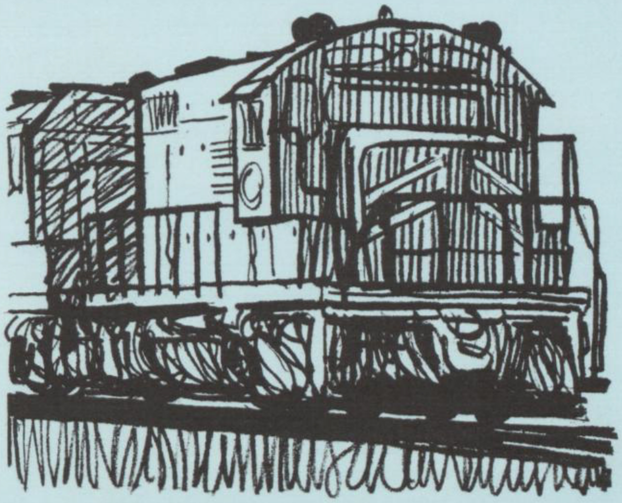
Missouri Pacific System had extraordinary items totaling $7,678,000 in 1971, consisting primarily of estimated loss on discontinuance of passenger service. As a result of these write-offs, consolidated net income totaled $18,086,000 in 1971 after extraordinary items. There were no extraordinary items in 1972.

Consolidated net income for the Missouri Pacific System, on the basis of generally accepted accounting principles, amounted to $16,630,000 in 1972 compared to $18,110,000 before extraordinary items in 1971.

A record was established in 1972 when operating revenues rose to $642,919,000 for the year, compared to $602,620,000 in 1971. That represents an increase of 6.7 per cent from the previous period.

A cash dividend of $5 per share was paid to all stockholders for the ninth consecutive year.

Accounts of the Chicago & Eastern Illinois System are included in figures of the Missouri Pacific System. In 1972, the C&EI had consolidated net income of $3,691,000 on operating revenues of $41,991,000. The comparable figures for 1971 were consolidated net income, before extraordinary item, of $2,704,000 and operating revenues of $37,734,000. Like MoPac, the C&EI also has adopted APB Opinion No. 18 of the American Institute of Certified Public Accountants. As a result of changes in reporting earnings of unconsolidated, less than majority-owned companies, net income for the C&EI in 1972 is reduced by $62,000 but increased by $219,000 for the year 1971. The Chicago & Eastern Illinois had an extraordinary charge of $875,000 in 1971,



consisting mainly of write-off of passenger-related investments. There were no extraordinary items in 1972.

Expenditures for capital improvements totaled $100,279,000 in 1972 compared to $71,092,000 in the previous year.

Sales/Marketing/Service

The Missouri Pacific System carried a record amount of freight during 1972. Intermodal traffic continued to outpace the industry. Numerous improvements were made in service. Marketing personnel were active in many areas. New industry continued to provide additional sources of revenue.

Freight volume surpasses 1971 total

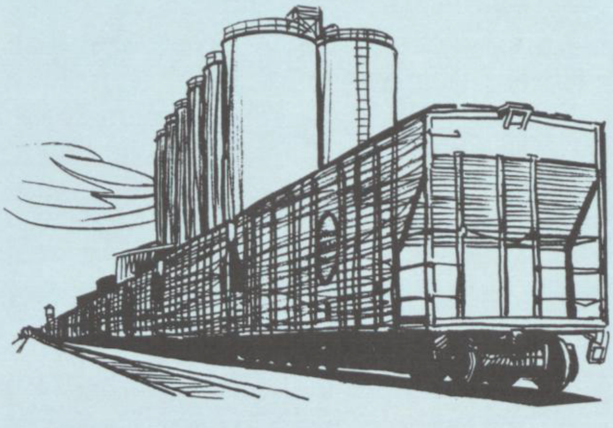
Missouri Pacific System carloadings advanced more than 5 per cent from the previous year. Nationally, the railroads experienced a record year in terms of freight volume, showing an increase of 3.1 per cent in carloadings. Fourth quarter loadings on the Missouri Pacific were unusually heavy and set a company record. The trend established in the fourth quarter continued into the first quarter of 1973.

Commodity areas where volume was notably higher during 1972 included: automobiles and automobile parts, chemicals, coal, forest and paper products and intermodal traffic.

Wheat loadings, stimulated late in the year by initial movements to Russia, were slightly higher in 1972. Loadings of corn, soybeans and other food grains were lower than in 1971 because of a late harvest. However, during the first quarter of this year, agricultural volume rose sharply to a point where a severe strain was put on the available supply of cars. It is anticipated that agricultural volume will remain at a high level throughout the year because of heavy export movements through Gulf Coast ports, and anticipated record crops to replace storage commodities depleted by record export purchases. This will also create heavy demands for fertilizer.

Three additional coal unit train movements established in 1972 will produce an estimated 1,500,000 tons of traffic annually. Two more unit train operations will begin in 1973 with an estimated annual volume of 3,500,000 tons.

Missouri Pacific shared in the fine year enjoyed by domestic auto producers in 1972. In addition, the company has been successful in securing a greater share of the import automobile market by having



available expedited auto train service and modern auto distribution facilities.

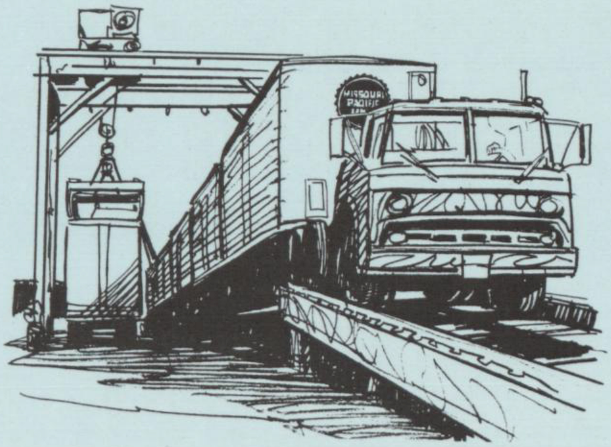
The chemical industry, MoPac's largest market area, continued to experience the resurgence which began late in 1971. This area of traffic is particularly susceptible to competitive pricing efforts to make transportation more economical to the producer. To this end, MoPac was able to offer a variety of volume rates which not only helped maintain present traffic but also diverted traffic from barge to rail.

Growth in the forest products and paper markets was due, in part, to a growing demand for these goods nationally, and to a large number of production facilities which we have assisted in locating along the Missouri Pacific during the past decade.

Intermodal operations expand

Missouri Pacific continued to maintain a position of leadership in development of intermodal services. This area, combining various modes of transportation, offers great potential for growth and has been expanding at a level well above that of pure railroad service. Intermodal traffic now produces about 11 per cent of MoPac transportation revenues.

Both piggyback and container traffic expanded in 1972. Piggyback freight traffic recorded a gain of 28.8 per cent in trailer loadings on the Missouri Pacific over 1971. The C&EI had an increase of 35.9 per cent. Nationally, the railroad increase was 14.5 per cent. Piggyback Plan 2½, with a rate structure which was modified late in 1971, accounted for a large part of the gains on the Missouri Pacific System.



Construction of new intermodal facilities also contributed to increased usage of piggyback among MoPac customers.

Container loadings rose by about 40 per cent in 1972. Part of this growth was due to increased container activity at Gulf Coast ports, especially mini-bridge movements whereby intercontinental shipments make part of their journey by rail. Most of the mini-bridge traffic handled by MoPac is overland between the West Coast and the Gulf Coast. MoPac salesmen, now thoroughly trained in the selling of containerization, also contributed significantly to our growth in containerization business through their continuing aggressive sales effort.

MoPac continues to establish a broader position in international freight commerce and has opened new offices outside the United States to maintain closer contact with international shippers. During 1972, MoPac established service centers in Seoul, South Korea and in Toronto, Canada. Offices also exist in Tokyo, Japan and in both Mexico City and Monterrey, Mexico.

Missouri Pacific Airfreight, a wholly-owned subsidiary of Missouri Pacific Truck Lines, began operations at St. Louis in October. Air freight forwarding facilities have been extended to Dallas-Fort Worth, Houston, Kansas City, Memphis and New Orleans. Early results of this new venture have been encouraging despite the intense competition which exists in this area of the transportation industry. Missouri Pacific Airfreight provides air freight forwarding service to all major domestic markets and also has international forwarding authority.

Financial results for Missouri Pacific's wholly-owned trucking subsidiaries, Missouri Pacific Truck Lines and Texas and Pacific Motor Transport, improved in 1972. The truck lines had net income of $236,000 on revenues of $33,100,000, compared to a net loss of $51,000 on revenues of $31,700,000 in 1971. The truck lines, which have depended in large part during past years on revenues from rail-substituted services, were notably successful in securing new business from outside sources in 1972. Continued progress also was made in removal of key points and other artificial restrictions imposed upon railroad-owned truck lines. During the year, more than 250 additional units of highway equipment were added to the trucking fleet.

New industry locates along MoPac

During 1972, 188 new and expanded industries located along Missouri Pacific lines. This activity represented an estimated capital investment of $381,000,000, well below the level of 1971. However, in terms of estimated new traffic revenues, industrial development results actually were better than in 1971.

Missouri Pacific continued its program of establishing industrial parks geared to the operations of light manufacturers and warehousers. Parks are located at San Antonio and Austin, Texas, Springfield, Mo. and Wichita, Kans. Other parks are in various stages of planning. All parks include paved streets plus utilities. Strict controls insure that firms locating in the parks meet environmental and aesthetic standards.

Marketing efforts broad and varied

Among the most significant advances during recent years in the marketing area has been implementation of sophisticated computer applications covering a wide variety of analytical and statistical projects. During 1972, for example, new computer programs were developed to analyze quickly the actual cost required to handle carload shipments of a wide range of commodities. Such data is highly useful in identifying both profitable and unprofitable types of traffic. Sales efforts have also been aided substantially by development of a wide range of computer reports useful in analyzing local markets and in developing traffic from new customers. As the result of another program completed late in the year, sales managers now can measure with extreme accuracy how much time individual salesmen are spending on accounts in their territories in terms of actual sales production and in terms of revenue produced by various kinds of traffic. Thus, the salesman has a useful tool to guide him in making the most efficient use of his time.

Refinements were made on an extensive railhead-barge cost analysis. Information from this study is used to show barge customers what their actual transportation costs are, including hidden and variable costs, in comparison to rail costs. In many cases, this information has been useful in switching barge users to railroad customers. Marketing personnel also have been developing unit train concepts to cover a number of commodity movements not now normally involved in unit train service.

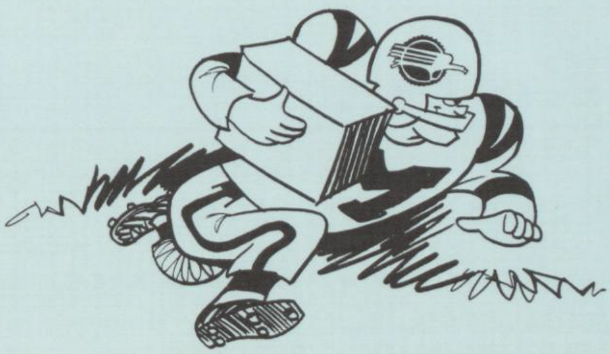
Two goals were accomplished through extensive reorganization of the rate section in 1972. One, a modified market manager system has been adopted which creates teams of experts specializing in two or more major commodity areas. Second, top rate officers are now free to visit shippers in company with salesmen to discuss pricing matters on a personal basis. As a result, many pricing problems can be settled quickly without a great deal of time-consuming correspondence. Such calls also give the salesmen broader latitude in discussing overall distribution problems with the customer.

Service improvements carried out during 1972 were numerous and played an important role in helping MoPac retain old business and attract new business.

New trains were put into operation between Chicago and Kansas City, giving MoPac a 24-hour schedule between these two major on-line cities. In addition, numerous changes were made in the schedules of existing trains during the year to provide closer connections with neighboring railroads and to speed service.

Car-hire costs, which represent the money MoPac pays to other railroads for the use of their cars, was reduced by $9.1 million during 1972. That figure means that foreign cars remained on our railroad the equivalent of nearly 2 million days less than they did the previous year. In many instances this is of benefit to shippers who experience faster movement of their freight to connecting railroads. The reduction in car-hire expense was brought about by an intensive campaign among employees and by operating efficiencies, made possible in large part by advances in the MoPac Transportation Control System.

Beginning in September, MoPac introduced its Scatback Small Shipments service to customers. This represents a major overhaul of service to shippers of less-than-carload and less-than-truckload freight. It includes more frequent schedules between major on-line cities, faster transit time, an improved billing system and a highly-effective monitoring program which has produced a threefold improvement in on-time delivery of small shipments. The new program, accompanied by an intensive sales and promotion effort, has produced substantial new business from shippers who recognize the improvements that have been made in LTL/LCL service.



Ten new Customer Service Centers were installed during 1972, bringing the number of these one-call service facilities to 18. Another 14 are scheduled to begin operations in 1973. The advantage of the Customer Service Center is that it permits a shipper to make a single telephone call to a central point to obtain information or provide instructions for virtually all normal rail or truck business matters.

Physical improvements

Missouri Pacific added new freight cars and locomotives in record numbers, constructed new intermodal facilities and continued its program of intensive upgrading of the rail network.

The Missouri Pacific invested a record $100.3 million in physical improvements during 1972. The money was spent to improve the freight car and locomotive fleet and for new facilities to attract new business and hold current business. In addition, high priority was placed on maintenance of a track plant capable of providing the safe and efficient service necessary to handle expanded traffic loads.

Expenditures for new equipment totaled $73 million for the year. The equipment program included 74 new diesel locomotives and 2,830 new freight cars. Virtually all the new cars are equipped with cushioned underframes and outfitted with special load protection devices. In addition, general and secondary repairs were performed at Missouri Pacific shops on more than 5,600 freight cars. In the past decade, MoPac has spent $539 million for more than 25,000 new freight cars and 557 locomotives and now possesses one of the most modern fleets in the railroad industry. At any given time, 97 per cent or more of this fleet is available for service to shippers.

Emphasis continued on MoPac's track maintenance program. The extent of this effort can be measured by the following work performed during 1972:

- Laying of 370 miles of rail, mostly continuous welded rail
- Construction of 8,611 lineal feet of bridgework
- Insertion of 1,466,000 crossties
- Application of 1,477,000 cubic yards of ballast
- Resurfacing of 5,670 miles of track on a 12,000-mile system

In addition, numerous sidings were either extended or constructed to facilitate meeting of trains. Microwave systems were constructed between New Orleans, La. and Marshall, Texas, between Pleasant Hill and Nevada, Mo., and between Osawatomie and Coffeyville, Kans. Work also progressed on three major centralized traffic control projects.

Intermodal physical handling facilities were constructed or expanded at several locations.

The largest was at St. Louis where a new merchandise freight house, piggyback ramp, container facility, truck repair shop and office facilities were constructed on a 22-acre site near the heart of the city. In addition, an older, two-story building acquired along with the site was modernized and now houses the terminal division superintendent and his staff. A new facility for storage of incoming automobiles is now under construction adjacent to the terminal.

A similar terminal, though somewhat smaller in scale, was completed at Memphis. It, like the one at St. Louis, permits Missouri Pacific to consolidate at one point several scattered operations which had been conducted in outmoded facilities. It includes a new merchandise freight terminal and office building, a new piggyback ramp, repair garage for the truck lines and a container handling facility.

A new piggyback facility and merchandise freight house also was constructed at Fort Worth, Texas, adjacent to Centennial Yard. New piggyback installations also were made at Laredo, Texas, Nevada, Mo., and at three Arkansas points: Forrest City, Helena and Pine Bluff. Container handling installations were expanded at New Orleans and Houston while the Dallas terminal was expanded to handle increased merchandise and piggyback/container traffic.

A large automobile handling center was constructed on a 21-acre site at Lee's Summit, Mo., near Kansas City. It provides a well-lighted, paved, high-security area for the transfer of automobiles and trucks from rail cars to highway transports. It presently has a capacity of 1,100 cars and can be readily expanded.

Work also started on two major company facilities. At North Little Rock construction is underway on an ultra-modern, campus-style district headquarters building which will house both operating and traffic personnel. It replaces the Union Station building in downtown Little Rock which has been sold to a private party. A new office building and a consolidated mechanical shop are being erected at Coffeyville, Kans. to replace old, outmoded structures.

Computer/Information systems

The role of the computer and data processing information systems continued to expand on the Missouri Pacific. TCS remained on target and played an important role in improvement of service. Virtually every department made use of data science applications.

Development in many areas of Missouri Pacific's Transportation Control System (TCS) continued during 1972, adhering closely to the time-table established for this complex management information system. The ultimate goal of TCS is to provide reliable, electronic control over all phases of transportation operations and to improve service to MoPac cus-

tomers. Key development in 1972 was completion and implementation of the basic, complex computer software structure upon which the remainder of the system is based. More than 1,000 employees received training during 1972 in how to communicate with this phase of TCS. In addition, most of the program design for advanced phases of the TCS system was completed during 1972. As a result, it was possible to open the Transportation Control Center in St. Louis headquarters shortly after the first of 1973. This center, now operating on a pilot basis, will plan, monitor and adjust the movements of virtually every car, loaded or empty, on the Missouri Pacific System both over the road and in terminals as well as be responsible for distributing locomotives. The computer complex which supports TCS and other data programs was expanded in 1972 when three IBM 360/50 computers were replaced by two IBM 370/155 computers.

Broad usage of computers

Data science personnel worked with virtually every department in developing computer-oriented programs, either to upgrade the efficiency of existing departmental functions or to push out into new areas. Among projects completed, and not previously reported upon under marketing, were: payroll data reporting system, a computerized skills inventory covering all employees, a computer tracing system for materials purchased by the company and a new system to monitor labor and machinery expenses for maintenance of way.

Using simulation techniques

Missouri Pacific has been able to study and often effect improvements in service by utilizing computer simulation techniques. This means that operations officers can feed various combinations of information into the computer and simulate actual operating conditions. For example, the technique can be used to calculate optimum horsepower and tonnage ratios required to maintain schedules. Another use has been in the study of fuel consumption by locomotives at varying speeds.

People

Training and education of the people of the Missouri Pacific remains a top priority. Minority groups find employment and promotion opportunities. Labor and management talk frankly. Changes in top management.

In a year which found many top corporations sharply curtailing the hiring of college graduates, Missouri Pacific continued its recruiting program. Thirty-nine graduates were selected for the management development program and 33 were assigned directly to jobs or to specialized training programs. In addition, 37 experienced men and women were recruited and hired for direct placement, especially in the Information and Control Systems department. Special orientation programs were established for employees being promoted from the ranks to management positions.

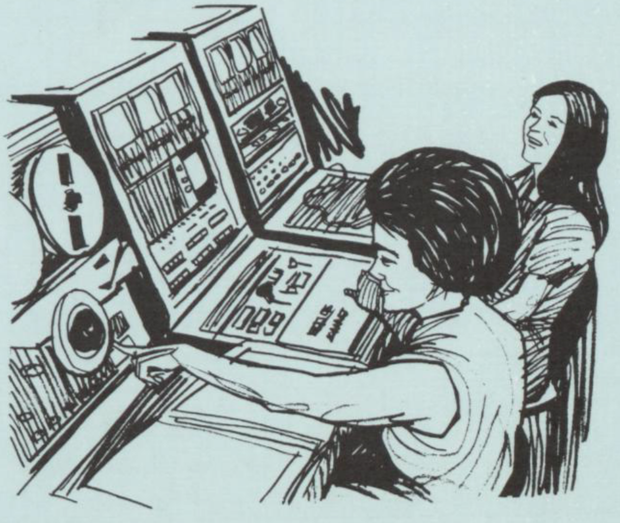
Recognizing its social responsibilities as an employer and corporate citizen, Missouri Pacific provides extensive employment and promotion opportunities to representatives of minority groups. In 1972, they accounted for about 25 per cent of all newly-hired employees and about 20 per cent of all promotions.

Nearly 450 employees attended special courses and seminars or used the company's tuition aid program to pursue job-oriented educational courses. Two more men began work towards an undergraduate degree through the Missouri Pacific Fellowship program. Those selected receive a paid leave-of-absence plus all tuition and other college expenses. The Traffic Department established an in-house educational program, "Rolling On," which requires all employees within the department to become familiar with basic traffic subjects such as regulatory law and specialized areas of transportation. In addition, MoPac continued to send top and middle managers to special management development courses at Harvard, Northwestern and other universities.

Missouri Pacific became the first railroad to establish a full-color in-house television training center. Working for all departments, the Video Training Section completed 17 productions and had nine more underway at year's end. These television films are used to train operating employees in proper work and safety techniques, to help orient new employees to railroad operations, to teach computer language and to promote various facets of MoPac service to customers. Operations are now geared to production of one 10-minute video presentation a week.

Efforts were made during the year to establish better communications between the Missouri Pacific and various segments of the public. Mr. Lloyd and other top company officers held a series of informal meetings with top representatives of the railroad brotherhoods. The purpose of these meetings was to explore differences that have caused misunderstanding and rancor in past years. Missouri Pacific, working in conjunction with the Association of American Railroads, is also organizing a system of community relations committees on the state and local level. Here the purpose is to develop closer ties with leaders of the community served by the railroad industry. A similar effort, involving key shippers and the railroads serving Arkansas, played an important role in the successful repeal of Arkansas' so-called "Full Crew" laws.

In May of 1972, John H. Lloyd was elected president of the Missouri Pacific Railroad. Downing B. Jenks was re-elected



chairman of the board and chief executive officer. Both men have been with Missouri Pacific throughout the extensive renewal program which began in 1961.

Recapitalization and mergers

It is contemplated that there will be submitted to the stockholders of Missouri Pacific Railroad Company a proposal whereby the company's Articles of Association would be amended principally to create two new classes of equity securities into which the present equity securities of the Company would be converted. The proposal is that pursuant to a Plan of Recapitalization, each share of the company's Class A Stock, without par value, would be converted into one share of a new $5 Cumulative Convertible Preferred Stock, without par value, and each share of the company's Class B Stock, without par value, would be converted into 16 shares of a new Common Stock, without par value, plus a right to receive from the Company $850 in cash. This cash distribution to the Class B stockholder group would approximate $33,771,000. Each share of Preferred Stock would be convertible into one share of Common Stock after one year following an Interstate Commerce Commission order described below.

Submission of the Plan to stockholders of the company for approval would be made as required by Missouri law and the company's Articles of Association and in accordance with a Settlement Agreement dated December 18, 1972, pursuant to which a lawsuit by representatives of the Class B stockholders against the company, Mississippi River Corporation (MRC) and certain of their directors would be settled. These stockholders have sued the Company and its directors and Mississippi River Corporation on behalf of all the class, asserting that dividends paid on the Class B stock are inadequate and that Mississippi River Corporation is seeking to enrich itself by depriving those stockholders of their share of the company's earnings. The Settlement Agreement contemplates the recapitalization of the Company, on the terms set forth in the Plan, and a tender offer by Mississippi River Corporation which presently holds more than a majority of the Class A Stock, for at least 400,000 shares of the new Common Stock. Alleghany Corporation, which owns more than a majority of the Class B Stock and would own more than a majority of the new Common Stock has agreed to tender its Common Stock to MRC as a result of which MRC would become the owner of more than a majority of the Common Stock as well as the Preferred Stock to be outstanding as a result of the Plan.

The Settlement Agreement, as required by law, is now before the United States District Court for the Southern District of New York for the Court's determination as to whether the Agreement is fair and reasonable to the company and the Class B stockholders. Such approval will not involve a determination of the fairness or reasonableness of the Plan to the holders of Class A Stock. Stockholder approval of the Plan is a condition to the settlement of the lawsuit pursuant to the Settlement Agreement.

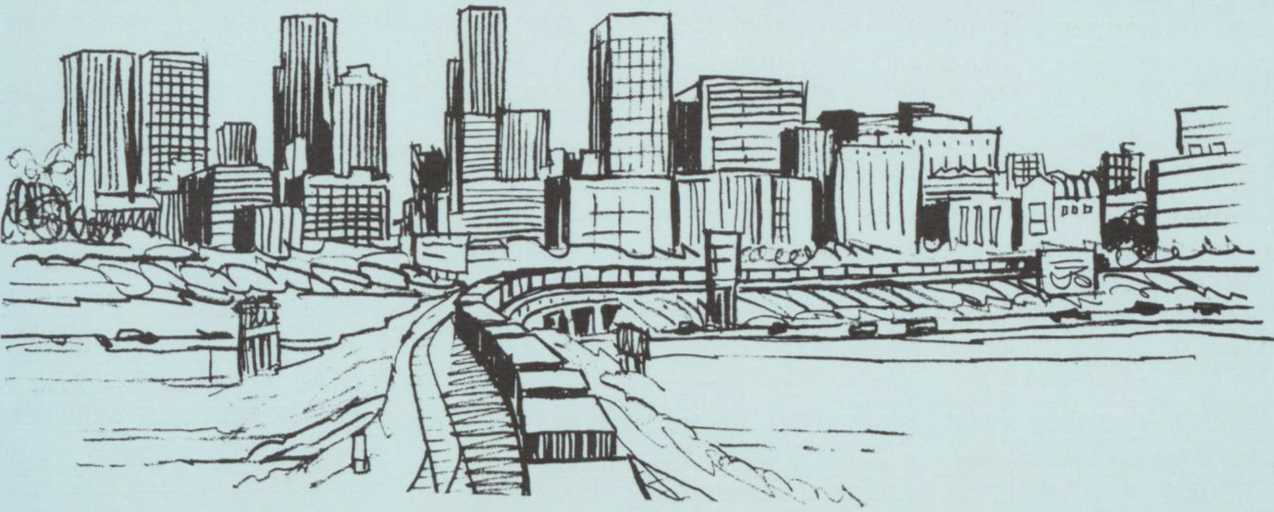
Issuance of the Preferred Stock and the Common Stock would be subject to the approval of the Interstate Commerce Commission.

The merger picture

The railroad merger picture, particularly in the West, is still very much an alive and vital issue to your company. During 1972 the Illinois Central — Gulf, Mobile and Ohio merger, involving two railroads in our immediate territory, was consummated with the strong probability of adverse results upon our company.

The gigantic proposals relating to the Rock Island Railroad and its division among several strong western carriers, all to the great disadvantage of the Missouri Pacific, have developed into an Examiner's Report attempting to entirely restructure the railroads of the west. His "master plan" in brief includes giving the Union Pacific the northern half of the Rock Island with entrance into Chicago and St. Louis, permitting the Santa Fe entrance to the St. Louis and Memphis gateways, and giving the Southern Pacific the southern half of the Rock Island and in particular the vital Tucumcari line of the Rock Island to Kansas City. As part and parcel of this plan, however, the Examiner recommended conditions for the inclusion of all or part of nine non-applicant railroads, including Missouri Pacific and Texas and Pacific, with the three larger protagonists.

All of this, of course, is highly theoretical and can continue to be the subject of strenuous proceedings before the Interstate Commerce Commission and, perhaps ultimately, in the courts. If possible at all, in the normal course of events such a plan is probably many years away from fruition. The Missouri Pacific, however, must continue to remain alert to this Rock Island proceeding as well as all other threats of like nature and attempt to obtain financial flexibility and the ability to participate affirmatively and advantageously in the Western Railroad merger movement.



Missouri Pacific System

Consolidated Statement of Changes in Financial Position

(In Thousands of Dollars)

	Year Ended December 31 1972	 1971
Financial resources were provided by:		
Net income before extraordinary items	$ 27,106	$ 25,764
Add — Charges (credits) against income not requiring working capital —		
Depreciation and retirements	41,818	40,219
Income applicable to minority interests	2,163	1,758
Increase in long term casualty and other reserves	2,831	1,583
Loss on sale of investments in securities of Santa Fe Industries, Inc.		2,073
Gain on reacquisition of long term debt	(1,206)	
Other	1,070	(357)
Working capital provided from operations	73,782	71,040
Salvage from property sold or retired	6,532	5,050
Proceeds from sale of investments in securities of Santa Fe Industries, Inc.	5,420	8,252
Proceeds from equipment obligations issued	57,065	33,498
	142,799	117,840
Financial resources were used for:		
Working capital used for extraordinary items —		
Entry fee in connection with discontinuance of rail passenger operations, net of income taxes		1,252
Reacquisition of bonds		6,317
Property additions	100,279	71,092
Repayment of equipment obligations	28,009	25,386
Repayment of long term debt (other than 1971 extraordinary items)	1,924	218
Dividends (including amounts paid minority interests)	9,641	9,818
Purchase of securities	2,171	1,610
Insurance deposit increase	5,191	
Capital fund deposit increase	4,032	
Other, net	2,998	(482)
	154,245	115,211
Increase (decrease) in working capital (exclusive of changes in long term debt due within one year)	$(11,446)	$ 2,629
Analysis of changes in working capital:		
Cash and temporary cash investments	$(10,942)	$ 13,195
Accounts receivable	668	(868)
Material and supplies	2,931	1,597
Other current assets	8,188	(663)
Accounts and wages payable	621	(8,854)
Federal income taxes accrued	587	(2,358)
Other current liabilities	(13,499)	580
Increase (decrease) in working capital (exclusive of changes in long term debt due within one year)	$(11,446)	$ 2,629

See Notes to Consolidated Financial Statements, Pages 20-23.

Missouri Pacific System

Consolidated Balance

Assets	Dec. 31, 1972	Dec. 31, 1971
Current Assets:		
Cash	$ 22,985	$ 23,843
Temporary Cash Investments, at cost (approximates market)	32,042	42,126
Deposits for Interest, Dividends and Equipment Acquisition	16,451	8,328
Accounts Receivable	51,759	51,091
Material and Supplies, at average cost	18,235	15,304
Other Current Assets	1,574	1,509
	143,046	142,201
Properties: (Note 1)		
Road	884,101	874,297
Equipment	873,179	823,961
Miscellaneous	36,046	36,998
	1,793,326	1,735,256
Less:		
Accumulated Depreciation		
Road	122,598	120,915
Equipment	329,997	324,507
Miscellaneous	12,849	12,687
Excess of Net Assets (at acquisition) of Consolidated Subsidiaries over carrying value of investments	59,627	58,064
	1,268,255	1,219,083
Other Assets and Deferred Charges:		
Investment in Santa Fe Industries, Inc. 6¼% Convertible Subordinated Debentures, at cost (approximates market)	9,098	14,486
Investment in Terminal and Other Companies (Note 2)	40,117	39,410
Capital, Insurance and Other Funds (Note 6)	10,747	1,175
Other	8,422	7,720
	68,384	62,791
	$1,479,685	$1,424,075

Sheet (In Thousands of Dollars)

Liabilities	**Dec. 31, 1972**	**Dec. 31, 1971**
Current Liabilities: (Exclusive of Long Term Debt Due Within One Year)		
Accounts and Wages Payable	$ 74,006	$ 74,627
Interest and Dividends Payable	8,148	6,718
Unmatured Interest Accrued	13,625	13,384
Federal Income Taxes Accrued (Note 3)	7,374	7,961
Other Taxes Accrued	9,721	9,503
Other Current Liabilities	17,902	6,292
	130,776	118,485
Long Term Debt — Due Within One Year (Equipment Obligations)	28,599	26,199
Long Term Debt (Page 19)	713,630	690,104
Other Liabilities and Deferred Credits (Note 6)	25,712	23,584
Equity of Minority Stockholders in Consolidated Subsidiaries	39,863	42,203
Stockholders' Equity: (Notes 7 and 9)		
Capital Stock — No Par Value		
Class A — Authorized 3,000,000 shares; outstanding 1,864,352 and 1,864,052 shares, respectively (excluding 17,600 shares held by Company)	186,435	186,405
Class B — Authorized 1,000,000 shares; outstanding 39,731 shares	3,973	3,973
Capital Surplus	1,505	1,517
Retained Income (Page 19)	349,192	331,605
	541,105	523,500
Commitments and Contingent Liabilities (Note 8)		
	$1,479,685	$1,424,075

See Notes to Consolidated Financial Statements, Pages 20-23.

Missouri Pacific System

Statement of Consolidated Income

(In Thousands of Dollars)

	Year Ended December 31	
	1972	**1971**
Operating Revenues:		
Freight	**$618,275**	$574,827
Switching and Other	**24,644**	27,793
Total Operating Revenues	**642,919**	602,620
Operating Expenses: (Notes 1 and 5)		
Maintenance of Way and Structures	**99,024**	88,845
Maintenance of Equipment	**119,302**	110,355
Traffic	**16,430**	15,168
Transportation	**246,117**	227,221
General and Miscellaneous	**27,411**	26,220
Total Operating Expenses	**508,284**	467,809
Net Revenue from Operations	**134,635**	134,811
Other Operating Charges:		
Taxes (Except Federal Income Taxes)	**42,712**	38,868
Equipment and Joint Facility Rents	**28,025**	35,399
Total Other Operating Charges	**70,737**	74,267
Net Operating Income (Before Federal Income Taxes)	**63,898**	60,544
Other Income (Net)	**5,679**	5,792
Income Available for Fixed Charges (Before Federal Income Taxes)	**69,577**	66,336
Interest:		
Fixed	**26,830**	25,139
Contingent	**10,277**	10,337
Total Interest	**37,107**	35,476
	32,470	30,860
Federal Income Taxes (Note 3)	**3,201**	3,338
	29,269	27,522
Less — Income Applicable to Minority Interests	**2,163**	1,758
Net Income Before Extraordinary Items	**27,106**	25,764
Extraordinary Items, Less Federal Income Taxes and Portion Applicable to Minority Interests (Notes 3 and 4)		(7,678)
Net Income (Including Extraordinary Items) (In Conformity with I.C.C. Accounting Principles — Notes 2 and 3)	**$ 27,106**	$ 18,086

Supplementary Income Information

	1972	1971
Net Income Before Extraordinary Items as Above (In Conformity with I.C.C. Accounting Principles)	**$ 27,106**	$ 25,764
Adjustments to Generally Accepted Accounting Principles (Note 3):		
Add or (Deduct) —		
Deferred Federal Income Taxes	**(10,906)**	(8,227)
Portion of Deferred Federal Income Taxes Applicable to Minority Interests	**430**	573
Net Income Before Extraordinary Items	**16,630**	18,110
Extraordinary Items:		
Extraordinary Items as Above (In Conformity with I.C.C. Accounting Principles — Note 4)		(7,678)
Adjustments to Generally Accepted Accounting Principles (Note 3) — Deferred Federal Income Taxes Less Portion Applicable to Minority Interests of $151,000		1.562
		(6,116)
Net Income (Including Extraordinary Items) (As It Would Be Stated in Conformity with Generally Accepted Accounting Principles — Note 2)	**$ 16,630**	$ 11,994
Depreciation and Retirement Charges Included Above (Note 1)	**$ 41,818**	$ 40,219

See Notes to Consolidated Financial Statements, Pages 20-23.

Missouri Pacific System

Statement of Consolidated Retained Income
(In Thousands of Dollars)

	Year Ended December 31 1972	 1971
Balance at beginning of year:		
As previously reported	$325,965	$318,145
Restatement due to change to equity method of accounting for certain affiliated companies (Note 2)	5,640	4,892
As restated	331,605	323,037
Add — Net Income (In Conformity with I.C.C. Accounting Principles)	27,106	18,086
	358,711	341,123
Deduct — Cash Dividends —		
Class A Stock — $5.00 per share	9,320	9,319
Class B Stock — $5.00 per share	199	199
Balance at end of year (Including $91,813,000 and $84,582,000, respectively, appropriated by the Board of Directors) (Notes 7 and 9)	$349,192	$331,605

See Notes to Consolidated Financial Statements, Pages 20-23.

Long Term Debt
(Including Maturities in 1973)
(In Thousands of Dollars)

	Interest Rate	Date of Maturity	Changes 1972 Issued	 Reacquired	Outstanding December 31, 1972 (excluding amounts held by Company)
Missouri Pacific Railroad Company					
First Mortgage Bonds (1)	4¼%	1990 & 2005		$ 1,161	$247,473
General Mortgage Bonds (1)	4¾% (2)	2020 & 2030		1,278	109,257
Income Debentures	5% (2)	2045			100,016
Equipment Obligations	3⅝% to 9%	1973 to 1987	$33,000	13,816	120,418
Texas and Pacific Railway Company					
First Mortgage Bonds	5%	2000			18,961
Second Mortgage Bonds	5%	2000		65	8
General & Refunding Mortgage Bonds (1)	3⅞%	1985		319	14,634
First Mortgage Bonds (KO&G) (1)	3⅝%	1980		89	2,268
Equipment Obligations	4⅛% to 7¾%	1973 to 1987	7,800	6,767	67,336
Chicago & Eastern Illinois Railroad Company					
Income Debentures (1)	5% (2)	2054			1,721
Equipment Obligations	5% to 6¾%	1973 to 1982	6,225	1,854	14,495
Other Majority-Owned Subsidiaries	3⅜% to 6%	1973 to 1985	10,040	5,790	45,642
Grand Total			$57,065	$31,139	$742,229

	1973	1974	1975	1976	1977
Equipment Obligations maturing during each of the next five years	$28,599	$27,647	$26,726	$25,846	$24,122

(1) Have annual sinking fund requirements.

(2) Contingent interest.

Substantially all of the properties of the Missouri Pacific System are covered by liens of either the Missouri Pacific Railroad or The Texas and Pacific Railway first mortgages or under the companies' equipment obligations.

Notes to Consolidated Financial Statements

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of financial statement preparation and consolidation — The accompanying consolidated financial statements of the Missouri Pacific System include the accounts of the Missouri Pacific Railroad Company and its majority-owned subsidiaries, principally the Texas and Pacific System (96.5% owned) and the Chicago & Eastern Illinois System (66.8% owned).

In order to comply with the provisions of Accounting Principles Board Opinion Number 18, which became effective in 1972, the Company changed from the cost method to the equity method of accounting for investments in less than majority-owned terminal railroad companies (joint ventures) and other affiliated companies where the Company has the ability to exercise significant influence over their operating and financial policies. These investments are now carried at the Company's equity in the underlying net assets of these nonsubsidiary companies.

The Company and its railroad subsidiaries maintain their books of account, and the accompanying statements have been prepared, in conformity with principles and methods of accounting prescribed or authorized by the Interstate Commerce Commission. These principles and methods do not require provisions for deferred federal income taxes (see federal income tax policy) as is required under generally accepted accounting principles.

Federal income taxes — The accompanying financial statements include provisions for current federal income taxes which have been reduced by the tax benefits of deductions for accelerated depreciation and amortization of properties in advance of such deductions for financial statement purposes. These benefits have been partially offset by the effects of financial statement expense accruals for casualties and other matters which are not deducted for income tax purposes until paid. The net current

Report of Independent Accountants

Price
Waterhouse & Co.
ONE MEMORIAL DRIVE, ST. LOUIS, MISSOURI 63102

February 16, 1973

To the Stockholders and Board of Directors of
MISSOURI PACIFIC RAILROAD COMPANY

We have examined the consolidated balance sheets of the Missouri Pacific Railroad Company and its subsidiaries as of December 31, 1972 and 1971 and the related statements of consolidated income, retained income, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Because of the characteristics of the company's two classes of stock, earnings per share data have been omitted from the accompanying consolidated financial statements (see Notes 7 and 9 to the consolidated financial statements).

In our opinion, except that provisions have not been made for deferred federal income taxes as set forth in the supplementary income information and earnings per share data have been omitted, the accompanying consolidated financial statements examined by us present fairly the financial position of the Missouri Pacific Railroad Company and its subsidiaries at December 31, 1972 and 1971, the results of their operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied after restatement for the change, with which we concur, to the equity method of accounting for investments in certain affiliated companies (see Note 2 to the consolidated financial statements).

Price Waterhouse & Co.

benefit of these timing differences has been normalized by a provision for deferred federal income taxes in the supplementary income information shown below the statement of consolidated income to present income in conformity with generally accepted accounting principles. The cumulative effects of provisions for deferred federal income taxes are included in the condensed consolidated balance sheets presented in conformity with generally accepted accounting principles (see Note 3).

Investment tax credit is accounted for under the flow-through method.

Properties — Properties are stated at estimated original cost, primarily determined as of January 1, 1955 by Interstate Commerce Commission valuations, plus additions and betterments at cost and less retirements since the dates of valuations.

The companies follow the straight-line method of depreciation using various group rates prescribed by the Interstate Commerce Commission. Depreciation provisions during 1972 and 1971 were at rates of approximately 3.6% for equipment and 2.0% for depreciable road properties. However, for rails, ties and other track materials, instead of depreciation accounting, the companies follow an acceptable alternate practice of "replacement" accounting. Under this method, replacements in kind are charged to expense while additions and betterments (improvements) are capitalized. The amounts capitalized are not depreciated and are charged against income only when the related properties are retired. Normal retirements of depreciable property are charged to the appropriate depreciation reserve at cost less salvage. At December 31, 1972 and 1971 consolidated nondepreciable properties, including land and land rights, were approximately $545,000,000.

Excess of net assets (at acquisition) of consolidated subsidiaries over carrying value of investments is not being amortized.

Pensions — The companies have an unfunded, noncontributory pension plan for executives, officials and certain key employees. Related charges to operating expense represent accruals which include normal cost and amortization of prior service cost over a 35-year period beginning January 1, 1966, plus interest on the recorded unfunded pension liability.

Casualty losses — Casualty losses are accrued and charged to income as they are incurred except for major casualties covered by the self-insurance reserve described in Note 6.

Debt and related expense — Discount and expense applicable to long term debt is deferred and amortized over the lives of the respective issues using the bonds outstanding method. Gain on reacquisition of bonds is recorded as income.

NOTE 2 — CHANGE IN ACCOUNTING:

As described in Note 1, the Company changed from the cost method to the equity method of accounting for certain investments in 1972. The accompanying consolidated financial statements for 1971 have been restated for comparative purposes. Accordingly, consolidated retained income as of January 1, 1971 was increased by $4,892,000 on an I.C.C. accounting basis representing the Company's equity in the underlying net assets of these companies at that date; and the 1971 consolidated results were increased by $748,000 on an I.C.C. accounting basis, and by $353,000 on a generally accepted accounting basis, representing the Company's proportionate share of their 1971 net income.

NOTE 3 — FEDERAL INCOME TAXES:

As described in Note 1, the accompanying financial statements do not include provisions for deferred federal income taxes. The condensed consolidated balance sheets shown below have been adjusted for the cumulative effects of such provisions and are presented in conformity with generally accepted accounting principles. Because of the change to equity accounting described in Note 2, other assets and deferred charges, equity of minority stockholders and retained income at December 31, 1971 have been increased by $7,471,000, $811,000 and $5,288,000, respectively, and properties have been decreased by $1,372,000 from amounts previously reported.

	December 31	
Assets	**1972**	**1971**
Current assets	$ 154,146,000	$ 152,001,000
Properties, net	1,278,517,000	1,228,851,000
Other assets and deferred charges	67,938,000	62,507,000
	$1,500,601,000	$1,443,359,000
Liabilities		
Current liabilities (exclusive of long term debt due within one year)	$ 125,176,000	$ 114,485,000
Long term debt — due within one year	28,599,000	26,199,000
Long term debt	713,630,000	690,104,000
Other liabilities and deferred credits	192,312,000	176,581,000
Equity of minority stockholders in consolidated subsidiaries	31,905,000	34,139,000
Capital stock and capital surplus	191,913,000	191,895,000
Retained income	217,066,000	209,956,000
	$1,500,601,000	$1,443,359,000

The investment tax credit, which has been applied under the flow-through method, reduced the provisions for current federal income taxes and increased income as follows:

	Year ended December 31	
	1972	1971
Income before minority interests and extraordinary items	$1,200,000	$2,145,000
Less — extraordinary items		1,413,000
Income before minority interests	$1,200,000	$ 732,000

At December 31, 1972, investment tax credit carryovers of approximately $26,700,000 are available to offset future years' federal income taxes otherwise payable. Of the $26,700,000 carryover, $1,600,000 will expire in 1974, $5,300,000 in 1975, $4,200,000 in 1976, $2,100,000 in 1977, $4,700,000 in 1978, $7,200,000 in 1979 and $1,600,000 in 1980, if not used.

NOTE 4 — EXTRAORDINARY ITEMS:

Extraordinary items for the year ended December 31, 1971 consisted of the following:

Estimated loss on discontinuance of rail passenger operations	$13,924,000
Gain on reacquisition of bonds	4,466,000
	9,458,000
Less federal income taxes	1,413,000
	8,045,000
Less portion applicable to minority interests	367,000
Extraordinary items (in conformity with I.C.C. Accounting Principles)	$ 7,678,000

On May 1, 1971, the Company entered into a contract with the National Railroad Passenger Corporation (Amtrak) which relieved the Company of its entire responsibility for the provision of intercity rail passenger service. The resultant estimated loss includes the book value of properties removed from rail passenger service, liability to the National Railroad Passenger Corporation in consideration of such relief, impairments to investments in terminal companies, employee protective benefits and other related costs.

During 1971 the Company reacquired bonds having a par value of $10,783,000.

NOTE 5 — RETIREMENT PLAN:

Pension expense as described in Note 1 resulted in charges to operating expense in 1972 and 1971 of approximately $3,332,000 and $3,162,000, respectively.

The actuarially computed value of benefits pertaining to retired employees exceeds the recorded pension plan liability by approximately $19,200,000 at December 31, 1972.

NOTE 6 — CASUALTY RESERVES:

Effective February 1, 1972, the Company and its majority-owned subsidiaries, except for the Chicago & Eastern Illinois System, increased their insurance deductible from $1,500,000 to $5,000,000 with respect to casualty losses resulting from destroyed freight cars, freight loss and damage, personal injury and third party liability. As a result, a self-insurance reserve has been established on the Company's books to account for any such loss to the extent that it exceeds $1,500,000 and is less than $5,000,000. Estimated premium savings from increasing the deductible are added to the reserve and applicable losses are charged to it. If the reserve balance totals $5,000,000 (the maximum self-insured loss expected to occur in any one year) no additional charges are to be made against income unless the reserve declines below the maximum amount. At December 31, 1972, the reserve balance was $735,000. At that date the Company had also set aside $5,200,000 in capital, insurance and other funds to be used in the event of self-insured losses.

NOTE 7 — CAPITAL STOCK AND RETAINED INCOME:

As of December 31, 1972 the Company had outstanding 1,904,083 shares of capital stock divided into two classes. Of this total 97.9% or 1,864,352 shares were Class A stock and 2.1% or 39,731 shares were Class B stock. These percentages are unchanged from December 31, 1971. These shares are without par value, but each has a stated value of $100 per share. Holders of Class A and Class B stock have full voting rights equal to one vote for each share held, but the Class A and Class B shares are entitled to vote separately as a class upon certain matters, including the issuance of additional shares and modifications of present shares.

Dividends on the Class A stock are noncumulative and may not exceed $5 per share in any given calendar year. After dividends of $5 per share have been paid on the Class A stock in any year, dividends may be paid on the Class B stock in such amount as the Board of Directors may declare. Dividends on both classes of stock are subject to the setting aside of such reserves and making such other provisions as the Board may deem necessary or advisable for working capital or expansion of the business of the Company, including the acquisition of property, or for other corporate purposes. Undistributed earnings of prior years may be used to pay cash dividends in succeeding years on either class of stock.

In the event of liquidation of the Company the holders of Class A stock shall be entitled to receive, out of the assets, the maximum of $100 per share before any distribution is made to the holders of the Class B stock. Thereafter, the holders of the Class B stock shall be entitled to receive any further distributions out of the assets of the Company without participation by the Class A holders. Neither the Class A nor Class B stock is convertible into the other class and neither is subject to redemption.

The provisions of the mortgages and indenture relative to priority of call in each year upon "Available Net Income" (as defined therein) have been satisfied and no restriction on the parent company's retained income at December 31, 1972 exists.

NOTE 8 — COMMITMENTS AND
CONTINGENT LIABILITIES:

The Company and its railroad subsidiaries lease a general office building and certain transportation equipment under long term lease agreements with total rental obligations of approximately $64,000,000 as of December 31, 1972. In 1973, $5,500,000 of such obligations will be paid.

The Company and its railroad subsidiaries are contingently liable as guarantors, together with other owner railroads, for principal and interest of certain obligations of various affiliated companies aggregating approximately $124,000,000 at December 31, 1972. Under terms of a service interruption policy, the Company and its railroad subsidiaries are contingently liable for additional premiums up to a maximum of $15,500,000 in the event of work stoppages on other participating roads.

NOTE 9 — LEGAL PROCEEDINGS,
SETTLEMENT AGREEMENT AND
PROPOSED RECAPITALIZATION:

See page 13 for details concerning the lawsuit by Class B stockholders for additional dividends, the related settlement agreement and proposed recapitalization.

Computation and Application of Available Net Income

Income of Missouri Pacific Railroad Company and its Wholly-Owned Railway Companies
(as required by the Company's Mortgages and Indenture)
(In Thousands of Dollars)

	1972	1971
Income Before Fixed Charges and After Federal Income Taxes	$45,476	$37,072
Income (Loss) of Wholly-Owned Railway Companies	(67)	115
Road Property Retired and Charged to Operating Expenses	2,561	1,895
	47,970	39,082
Less — Dividends of 100% Railway Companies Included in Missouri Pacific Income	—	—
Total Income Available for Fixed Charges	47,970	39,082
Fixed Charges	18,499	16,959
Available Net Income	29,471	22,123
Capital Expenditures Fund	7,243	5,946
Remaining Income	22,228	16,177
First Mortgage Sinking Fund	771	771
Remaining Income	21,457	15,406
Interest on General Mortgage Bonds, Series A	2,692	2,712
Remaining Income	18,765	12,694
Sinking Fund on General Mortgage Bonds, Series A	350	350
Remaining Income	18,415	12,344
Interest on General Mortgage Bonds, Series B	2,497	2,538
Remaining Income	15,918	9,806
Sinking Fund on General Mortgage Bonds, Series B	338	338
Remaining Income	15,580	9,468
Interest on Income Debentures	5,001	5,001
Balance	$10,579	$ 4,467

Missouri Pacific System

Condensed Statement of Consolidated Income For The Five Years Ended December 31, 1972

(In Thousands of Dollars)

	1972	1971	1970	1969	1968
Operating Revenues	$642,919	$602,620	$534,128	$495,258	$445,749
Operating Expenses	508,284	467,809	416,806	387,101	350,612
Net Revenue from Operations	134,635	134,811	117,322	108,157	95,137
Other Operating Charges	70,737	74,267	67,417	59,186	52,448
Other Income (Net)	5,679	5,792	8,977	10,170	10,120
Interest Expense	37,107	35,476	35,535	34,571	33,111
Income Before Federal Income Taxes, Minority Interests and Extraordinary Items	32,470	30,860	23,347	24,570	19,698
Federal Income Taxes	3,201	3,338	553	2,686	430
Less — Income Applicable to Minority Interests	2,163	1,758	944	Cr 12	488
Net Income Before Extraordinary Items	27,106	25,764	21,850	21,896	18,780
Extraordinary Items, Less Taxes and Minority Interests		(7,678)			2,941
Net Income (Including Extraordinary Items) (In Conformity with I.C.C. Accounting Principles)	$ 27,106	$ 18,086	$ 21,850	$ 21,896	$ 21,721

Supplementary Income Information

	1972	1971	1970	1969	1968
Net Income Before Extraordinary Items as Above	$ 27,106	$ 25,764	$ 21,850	$ 21,896	$ 18,780
Adjustments to Generally Accepted Accounting Principles — Deferred Federal Income Taxes	(10,476)	(7,654)	(10,088)	(7,229)	(7,267)
Net Income Before Extraordinary Items	16,630	18,110	11,762	14,667	11,513
Extraordinary Items:					
Extraordinary Items as Above		(7,678)			2,941
Adjustments to Generally Accepted Accounting Principles — Deferred Federal Income Taxes		1,562			
Net Income (Including Extraordinary Items) (As It Would Be Stated in Conformity with Generally Accepted Accounting Principles)	$ 16,630	$ 11,994	$ 11,762	$ 14,667	$ 14,454
Depreciation and Retirement Charges Included Above	$ 41,818	$ 40,219	$ 37,958	$ 36,349	$ 35,915

In compliance with APB Opinion No. 18 of the American Institute of Certified Public Accountants, consolidated net income for 1972 (1968-1971 restated) includes, for the first time, the Company's share of earnings (or losses) of unconsolidated, less than majority-owned terminal and other affiliated companies on the basis of equity accounting.

Missouri Pacific Railroad Company

Statement of Income (Corporate)
(In Thousands of Dollars)

	Year Ended December 31	
	1972	**1971**
Operating Revenues:		
Freight	$434,617	$403,528
Switching and Other	16,464	18,327
Total Operating Revenues	451,081	421,855
Operating Expenses:		
Maintenance of Way and Structures	71,671	63,021
Maintenance of Equipment	77,624	70,582
Traffic	10,281	9,480
Transportation	164,708	149,676
General and Miscellaneous	19,513	18,617
Total Operating Expenses	343,797	311,376
Net Revenue from Operations	107,284	110,479
Other Operating Charges:		
Taxes (Except Federal Income Taxes)	29,434	26,608
Equipment and Joint Facility Rents	39,449	44,917
Total Other Operating Charges	68,883	71,525
Net Operating Income (Before Federal Income Taxes)	38,401	38,954
Other Income (Net):		
Intercompany Dividends (Eliminated in Consolidation)	4,225	3,209
Other, Net	2,569	1,701
Total Other Income	6,794	4,910
Income Available For Fixed Charges (Before Federal Income Taxes)	45,195	43,864
Interest:		
Fixed	18,499	16,959
Contingent	10,190	10,251
Total Interest	28,689	27,210
	16,506	16,654
Federal Income Taxes	Cr 280	320
Net Income Before Extraordinary Items	16,786	16,334
Extraordinary Items, Less Federal Income Taxes		(6,472)
Net Income (Including Extraordinary Items) (In Conformity with I.C.C. Accounting Principles)	$ 16,786	$ 9,862

Supplementary Income Information

	1972	1971
Net Income Before Extraordinary Items as Above (In Conformity with I.C.C. Accounting Principles)	$ 16,786	$ 16,334
Adjustments to Generally Accepted Accounting Principles — Deferred Federal Income Taxes	(5,850)	(3,462)
Net Income Before Extraordinary Items	10,936	12,872
Extraordinary Items:		
Extraordinary Items as Above (In Conformity with I.C.C. Accounting Principles)		(6,472)
Adjustments to Generally Accepted Accounting Principles — Deferred Federal Income Taxes		1,483
		(4,989)
Net Income (Including Extraordinary Items) (As It Would Be Stated in Conformity with Generally Accepted Accounting Principles)	$ 10,936	$ 7,883
Depreciation and Retirement Charges Included Above	$ 24,376	$ 22,944

Texas and Pacific System

(Owned 96.5% By Missouri Pacific Railroad Company)

Statement of Consolidated Income

(In Thousands of Dollars)

	Year Ended December 31	
	1972	**1971**
Operating Revenues:		
Freight	$116,593	$110,068
Switching and Other	4,034	5,385
Total Operating Revenues	120,627	115,453
Operating Expenses:		
Maintenance of Way and Structures	17,131	16,021
Maintenance of Equipment	22,523	20,797
Traffic	4,272	3,861
Transportation	51,473	48,903
General and Miscellaneous	4,794	4,647
Total Operating Expenses	100,193	94,229
Net Revenue from Operations	20,434	21,224
Other Operating Charges:		
Taxes (Except Federal Income Taxes)	7,473	6,898
Equipment and Joint Facility Rents	1,508	3,832
Total Other Operating Charges	8,981	10,730
Net Operating Income (Before Federal Income Taxes)	11,453	10,494
Other Income (Net)	2,132	1,309
Income Available for Fixed Charges (Before Federal Income Taxes)	13,585	11,803
Fixed Interest	5,575	5,388
	8,010	6,415
Federal Income Taxes	Cr 13	307
	8,023	6,108
Deduct (Add)-Income (Loss) Applicable to Minority Interest	(1)	12
Net Income Before Extraordinary Items	8,024	6,096
Extraordinary Items, Less Federal Income Taxes		(697)
Net Income (Including Extraordinary Items) (In Conformity with I.C.C. Accounting Principles)	$ 8,024	$ 5,399

Supplementary Income Information

	1972	1971
Net Income Before Extraordinary Items as Above (In Conformity with I.C.C. Accounting Principles)	$ 8,024	$ 6,096
Adjustments to Generally Accepted Accounting Principles — Deferred Federal Income Taxes	(3,457)	(2,501)
Net Income Before Extraordinary Items	4,567	3,595
Extraordinary Items:		
Extraordinary Items as Above (In Conformity with I.C.C. Accounting Principles)		(697)
Adjustments to Generally Accepted Accounting Principles — Deferred Federal Income Taxes		(177)
		(874)
Net Income (Including Extraordinary Items) (As It Would Be Stated in Conformity with Generally Accepted Accounting Principles)	$ 4,567	$ 2,721
Depreciation and Retirement Charges Included Above	$ 8,502	$ 8,242

Chicago & Eastern Illinois System

(Owned 66.8% By Missouri Pacific Railroad Company)

Statement of Consolidated Income

(In Thousands of Dollars)

	Year Ended December 31	
	1972	**1971**
Operating Revenues:		
Freight	$ 38,968	$ 34,753
Switching and Other	3,023	2,981
Total Operating Revenues	41,991	37,734
Operating Expenses:		
Maintenance of Way and Structures	7,710	7,463
Maintenance of Equipment	7,325	6,642
Traffic	1,255	1,240
Transportation	12,733	12,323
General and Miscellaneous	1,879	1,739
Total Operating Expenses	30,902	29,407
Net Revenue from Operations	11,089	8,327
Other Operating Charges:		
Taxes (Except Federal Income Taxes)	2,712	2,376
Equipment and Joint Facility Rents	2,585	2,660
Total Other Operating Charges	5,297	5,036
Net Operating Income (Before Federal Income Taxes)	5,792	3,291
Other Income (Net)	67	577
Income Available For Fixed Charges (Before Federal Income Taxes)	5,859	3,868
Interest:		
Fixed	862	680
Contingent	86	86
Total Interest	948	766
	4,911	3,102
Federal Income Taxes	1,220	398
Net Income Before Extraordinary Item	3,691	2,704
Extraordinary Item, Less Federal Income Taxes		(875)
Net Income (Including Extraordinary Item) (In Conformity with I.C.C. Accounting Principles)	$ 3,691	$ 1,829

Supplementary Income Information

	1972	1971
Net Income Before Extraordinary Item as Above (In Conformity with I.C.C. Accounting Principles)	$ 3,691	$ 2,704
Adjustments to Generally Accepted Accounting Principles — Deferred Federal Income Taxes	(164)	(995)
Net Income Before Extraordinary Item	3,527	1,709
Extraordinary Item:		
Extraordinary Item as Above (In Conformity with I.C.C. Accounting Principles)		(875)
Adjustments to Generally Accepted Accounting Principles — Deferred Federal Income Taxes		407
		(468)
Net Income (Including Extraordinary Item) (As It Would Be Stated in Conformity with Generally Accepted Accounting Principles)	$ 3,527	$ 1,241
Depreciation and Retirement Charges Included Above	$ 2,256	$ 1,986

Board of Directors

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Crooker & Jaworski, Houston

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Vice President-Law, Texas and Pacific Railway,
St. Louis

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Chairman of the Board, Texas and Pacific Railway
and Chicago & Eastern Illinois Railroad, St. Louis

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††Chairman of Finance Committee

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Transfer Agent
Class A Stock, 45 Wall Street
New York, N. Y. 10005

THE BOATMEN'S NATIONAL BANK OF ST. LOUIS
St. Louis Transfer Agent
Class A and B Stock, 300 No. Broadway
St. Louis, Mo. 63102

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MANUFACTURERS HANOVER TRUST COMPANY
Registrar
Class A Stock, One Whitehall Street
New York, N. Y. 10015

ST. LOUIS UNION TRUST COMPANY
St. Louis Registrar
Class A and B Stock, 510 Locust Street
St. Louis, Mo. 63101

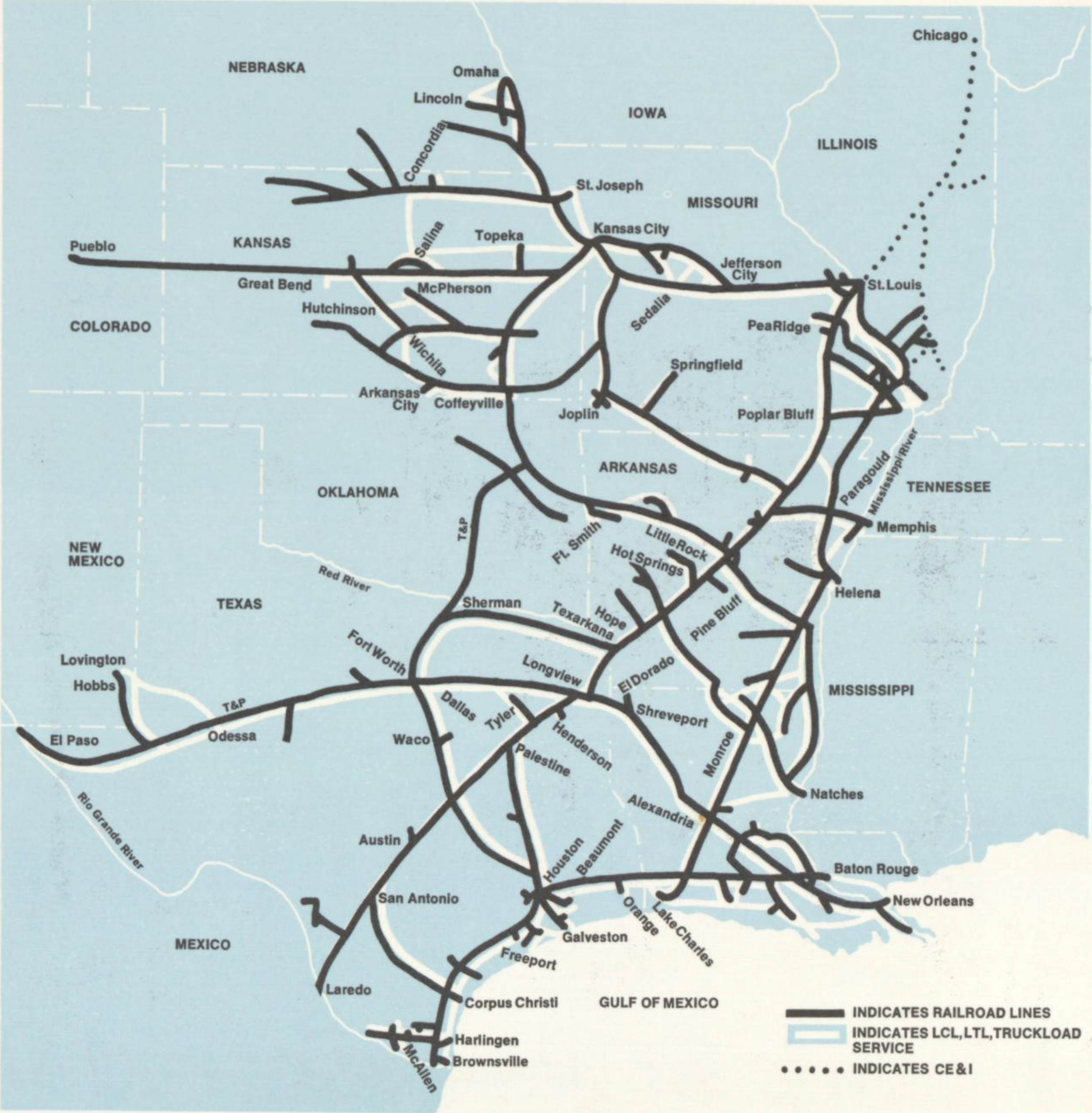
ANNUAL MEETING OF STOCKHOLDERS
The Second Tuesday in May
General Offices
Missouri Pacific Building
St. Louis, Mo. 63103

mo-pac system

The Missouri Pacific — Texas & Pacific System totals about 12,000 miles of railroad in an area extending from the Mississippi River on the east, to the Colorado Rockies, from Omaha and St. Louis on the north, to the Gulf of Mexico and the Rio Grande.

Its on-line territory, in which traffic originates and terminates, includes 12 states in the midwest, south and southwest. With gateways to and from the west at Pueblo and El Paso, and to the east at St. Louis, Memphis and New Orleans, the MP — T&P combination provides an exceptionally wide choice of routes for overhead east-west traffic. Handling substantial volumes of export-import traffic through 11 Gulf ports and through the Brownsville, Laredo and El Paso gateways to Mexico, it is an important link in foreign commerce as well as one of the nation's major domestic carriers.

Supplementing the rail lines is a network of some 17,000 miles of truck routes operated by Missouri Pacific Truck Lines, Inc., and The Texas & Pacific Motor Transport Company. Much of the highway mileage parallels the rail lines but many routes provide scheduled freight service to places not reached by the railroads. The two highway subsidiaries also perform all the terminal and piggyback ramp loading and unloading for Missouri Pacific Railroad — Texas & Pacific Railway billed traffic and over-the-highway service for piggyback traffic.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